PERSpectives

November 2000

Public Employee Retirement System of Idaho

PERSI announces \$155.4 million gain sharing

Gain Sharing payments to occur in January 2001

Gain Sharing, the new PERSI benefit created by the 2000 Idaho Legislature, is becoming a reality, with the first distributions occurring in January 2001. With Gain Sharing, PERSI is able to share excess earnings with our eligible retirees, active members and employers. This year, for our initial Gain Sharing distribution, we are sharing \$155.4 million dollars among the three groups.

We are happy to inform you that as one of PERSI's 22,000 retirees, you will share in \$18.6 million in the form of a "13th Check" in January, 2001. Be assured that this money is intended for you. It is NOT a mistake. You may spend the money however you wish. You need not call us first.

13th Check Payment Amount
The amount of your PERSI Gain Sharing 13th
Check is determined by your regular PERSI

At the press conference announcing Gain Sharing, Governor Kempthorne (front) reacts to a comment along with (from left to right) PERSI Board members Pamela Ahrens and Susan Simmons, Senator Grant Ipsen, Representative Robert Schaefer and Senator Dean Cameron. More photos inside.

retirement benefit, and is equal to about 106% of your monthly amount; therefore your 13th Check will be different than your regular amount. We will send you a notice of the exact amount in January 2001.

The **average** retiree with a monthly benefit of around \$846 will receive a check for about \$896. Your amount will be more or less based on your regular monthly PERSI payment. (Note: if you retired after June 30, 2000, your check may be a different amount because you were an active

member as of that date and your gain sharing is based on the active member calculation.) This check is additional income that may affect your tax liability.

Deductions from Your 13th Check

Taxes: If you normally have taxes withheld from your regular PERSI monthly payment, then taxes will also be deducted from your 13th Check. If you do not normally have taxes withheld, no taxes will be deducted from your 13th Check.

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A Message from the Chairman, Jody B. Olson

Gain Sharing brought to you by dedicated PERSI employees



Jody B. Olson Retirement Board Chairman

As you all know, PERSI will be making our first gain sharing distributions to you, our members, this January. Something you might not all know, however, is that I believe this valuable new program from which we will all benefit, would not have been possible if it wasn't for some very special people - the PERSI staff.

First of all, I'd like to recognize Bob Maynard, PERSI's Chief Investment Officer. Bob joined PERSI just over eight years ago, at a time when the system was just starting to climb out of a sizable funding deficit. At the time, PERSI had about \$2 billion in assets, and an unfunded liability of about \$800 million. Bob took

control of the PERSI portfolio, made changes to dramatically improve our returns as well as our stability, and has led the team that has brought us to where we are today - a \$7 billion plan that is 116% funded and able to grant gain sharing to you.

"We have been very fortunate that our long-term investment strategy has given us such handsome returns in recent years. While we do not expect these stunning markets to continue forever, it is nice to know that when the markets do offer their occasional periods of superlative returns, our investments capture those opportunities," said Bob.

Next, I'd like to commend Executive Director, Alan Winkle, and his senior managers: Deputy Director, Ted Aho; Financial Officer, Jim Monroe; Benefits Manager, Susan Shaw; Field Services Manager, Judy Aitken; Information Technology Manager, Carol Boylan; Communications Manager, Becky Crowther; Defined Contribution Plan Specialist, Gay Lynn Bath; Management Assistant, Joanne Ax; and Deputy Attorney General assigned to PERSI, Brad Goodsell. This group is doing an excellent job of planning and implementing the new programs within a very short timeframe.

Last, but not least, I want to recognize the hardworking staff at PERSI. The new Gain Sharing and Choice plan programs, in essence, have doubled the workload for PERSI, but only a few new staff members have been added. The staff is going all out to implement a new computer system and initiate the new programs. This has not been easy and I really appreciate all the extra effort.

PERSI staff members are:

Benefits: Lenna Strohmeyer, Kay Prince, Marian Van Gerpen, Shirley Clark, Lisa Coburn, Gerry Sjol, Lois Hathorn, Micaela Larrondo, Melody Hodges, Penny Walls and Mary Christensen.
Field Services: Anna Garlock, Heidi Andrade, Judith Porges, Susan Strouth, Lynn Duncan, Catherine Atchison, Judy Shock, Roger Bartlett, Lisa Mabe, Lynne Yowell, Jan Murphy and Kari Caven.

Financial: Tess Myers, Rhonda Yadon, Jo Anne Dieffenbach, Sue Zweifel, Barbara Weirick, Debbie Buck, Adrienne Yates, and Shasta Luper. Information Technology: Tim Thuis, Joy Fereday, Lance Olson, Kris Colt, Phyllis Siefkas, Stacy Bussert and Nancy Fauver.

Communications: Maxine Thomas and Bill Duncan Defined Contributions: Karen Miller Portfolio/Legal: Rose Marie Sawicki

When you receive your Gain Sharing 13th Check this January, please take a minute to think of the PERSI staff.

Gain Sharing continued from page 1

Insurance, dues, etc: Even if you normally have deductions taken from your regular PERSI monthly payment for medical or dental insurance premiums, various dues, etc, no such deductions will be taken from your 13th Check. Only the taxes discussed above will be deducted.

Payment Method for Your 13th Check
If your regular PERSI monthly retirement benefit is deposited directly in your bank account, the 13th
Check will also be automatically deposited for you.
It will be deposited in January 2001.

If you receive your PERSI monthly retirement benefit in the mail, you will receive your 13th Check in the mail as well. The check will be mailed in January 2001.

Monthly PERSI Benefit Not Affected and COLAs Will Continue

We would also like to remind you that this Gain Sharing 13th Check is in addition to your regular monthly PERSI benefit. Your regular benefit will not change in any way. Plus, you will still receive your annual PERSI Cost of Living Allowances (COLAs) in March 2001. This March you will receive a 3.4% COLA increase on your PERSI benefit. This increase means that \$51 million more will be going to PERSI retirees.

Gain Sharing May Not Occur Each Year
Also, remember that Gain Sharing may or may not occur annually, depending on PERSI's investment earnings and funding level. Gain Sharing will only occur in years when PERSI has extraordinary

PERSI Retiree Payroll Facts

September is always our busiest month for new retirees. This year we really broke all records with 477 September retirees. (A normal month has 100 retirees.)

- \$19,367,453 monthly payroll
- 22,891 retirees
- \$846 average monthly benefit
- 83% of retirees use direct deposit

earnings. This year, we are extremely pleased to share our success with you in the form of your forthcoming $13^{\rm th}$ Check.

Active Members and Employers Also Receive Gain Sharing

Active members will receive their gain sharing as a deposit into an individual *Choice* Plan account within PERSI. The active member payment amount is based on their regular PERSI account balance as of June 30, 2000. PERSI's 53,000 eligible active members will share some \$59 million.

Active members will be able to make voluntary contributions to their *Choice* Plan accounts through tax-deferred payroll deduction and they will have a variety of investment funds in which they may invest.

PERSI's 638 employers will share \$77.7 million in as credits against future contributions owed to PERSI. In 2001, this will be approximately 44% of what is owed for the year. PERSI has no restrictions on how the employers may utilize their savings other than those generally applicable to them. PERSI is not involved in the spending decision in any way. Regular PERSI benefits and contributions are in no way reduced or affected by gain sharing or the employer credits.



Representative Robert Schaefer remarks about gain sharing. Also pictured (left to right) PERSI Board members Pamela Ahrens and Sue Simmons and Senator Hal Bunderson.



Retirement Board Chairman, Jody B. Olson (left) presents a check at the press conference announcing gain sharing. Also visible (left to right) PERSI Board members Kirk Sullivan and Pamela Ahrens, Senator Hal Bunderson, Representative Robert Schaefer, Senator Dean Cameron and PERSI Board member Dennis Johnson.

How much Gain Sharing will you receive?

Projected January 2001 Gain Sharing

Active Members \$ 59 million
Retirees \$ 18.6 million
Employers \$ 77.7 million

Total Gain Sharing for the Year \$155.4 million

Your gain sharing amount is based on your PERSI Monthly Retirement Benefit as of June 30, 2000. Refer to your PERSI direct deposit amount on your bank statement to estimate your gain sharing "13th Check" payment amount. If you receive your PERSI checks in the mail, refer to your July 2000 checkstub to estimate your gain sharing "13th Check" amount.

Estimated Retiree Monthly Benefits and Gain Sharing "13th Check"

				Average				
l .				Benefit &				
				Payment				
Monthly Benefit	\$200	\$400	\$600	\$846	\$900	\$1,000	\$1,200	\$1,400
Estimated Gain								
L9UIIIaved Calli								
Sharing Payment	\$213	\$425	\$638	\$896	\$957	\$1,063	\$1,276	\$1,488

The above is based on a \$155.4 million gain sharing distribution. As fiduciaries, the Retirement Board reserves the authority to change the distribution amount or to cancel gain sharing should economic circumstances require them to do so to ensure the stability of the PERSI fund. Gain sharing distributions are expected to occur in January, 2001. You will receive a notice at that time confirming your payment amount.

Choosing the right time to begin taking Social Security benefits

By Bill Duncan

Social Security is one of the most important topics on the minds of retirees. After all, deciding when to take your Social Security retirement benefits is a major decision. When President Clinton signed legislation on April 7, 2000, eliminating the retirement earnings test, a new world of possibilities opened up for retirees who continue to work. It also presented a new list of questions that must be answered to make an informed decision about when to start receiving social security benefits.

How it Used to Work

Under the old law, if retirees between the ages of 65 and 70 continued to work, they saw their Social Security benefits reduced by \$1 for every \$3 they earned in wages over \$17,000. A retiree who earned \$20,000 in 2000, for example, would have had their Social Security benefits reduced by \$1,000 (\$20,000 - \$17,000 = \$3,000/3 = \$1,000). In addition, a spouse who is entitled to 50 percent of the employed retiree's benefits would also receive a reduced benefit.

Workers aged 62-64 will continue to be pinched by an earnings test that will reduce benefits by \$1 for every \$2 earned over \$10,800 in 2000. Thus, a retiree in this age group who earned \$20,000 this year would have their benefits reduced by \$4,600.

Fact: According to the Social Security Administration (SSA), roughly 3,300 seniors in Idaho had some or all of their benefits withheld in 1999 because of this retirement earnings test. However, these dollars are not gone forever. They are paid back in the form of a delayed-retirement credit. In other words, reductions in current benefits are offset by an increase in future benefits. These credits increase the retiree's monthly benefits by 6 percent for each year of lost or delayed benefits. By 2008, the delayed retirement credit will increase to 8 percent a year for workers who reach the age of 65 in that year or later.

How it Works Under the New Law

Under the new law, you can start receiving your full Social Security benefits at your normal retirement age (now 65 for those born before 1938), even if you choose to continue working, regardless of your income. Or, you could defer your benefits, and get the delayed-retirement credit when you finally do retire.

The question is, when should you apply to start receiving Social Security benefits? Should you start receiving them as soon as you are eligible or wait until the age of 70 and get the delayed-retirement credit? The answer is individual and depends on several variables that you should consider:

- o How long do you expect to live?
- o Will your spouse depend on your Social Security benefit after you are gone?
- o What tax bracket are you in?

There certainly are some advantages to working a few extra years, particularly for those who worked intermittently in their younger years or earned low wages, because Social Security replaces these earlier low-wage years with new wages in its

computation of your "primary benefit amount," which is the baseline for determining how much Social Security you are entitled to. Add this to the possibility of earning delayed retirement credits, and your benefit amount could be boosted by several percentage points for each full year you work past normal retirement age.

Let's put some dollar amounts with this example:

Joe wants to retire at age 62. He would be hit with an early-retirement penalty that would cost him about 20% of his monthly Social Security benefit. In addition, because he was earning more at the end of his career than at the beginning, he would miss out on the opportunity to replace lower-wage years with higher-wage years. The bottom line: if he works until 65, he will get almost 30% more: over \$1500 per month versus \$1100. If he chooses to work until age 70, earning delayed retirement credit (at around 6% per year), he could expect over \$2100 per month in benefits.

As you can see, there are some advantages to working longer. You can receive a greater benefit for the rest of your life, not to mention the additional income you earned and hopefully were able to put away. Unfortunately, you will receive this increased benefit for a shorter period of time because you are 5 years older.

Weighing Your Options

Year of

Will it really pay off to delay receiving benefits until age 70? That depends on whether you outlive your projected life expectancy. If you are entitled to the maximum social security benefit, you can expect to collect about \$86,000 (not including

Normal

Benefit

interest if you invested this money) in benefits between the ages of 65 and 70. The actuaries figure that it will take as long as 16 years for the worker who waited until age 70 to start taking benefits to catch up with the one who started collecting at age 65. So if you think you will prove the actuaries wrong and outlive your life expectancy, getting the delayed retirement credit could work in your favor. It all has to do with longevity.

Another factor that could influence your decision is if you have a younger spouse who, after you die, will collect Social Security benefits based on your earnings record. Your spouse will collect 100% of your benefit when you pass away – including the delayed income credit – as your survivor.

You should also consider taxes. Up to 85% of Social Security benefits are subject to income tax, depending on your tax bracket. Someone working at a high-paying job may very well take quite a tax hit by starting benefits at 65. It could be beneficial to wait until age 70 to start collecting when you have fallen into a lower tax bracket.

On the other hand, if you start collecting benefits at age 65, you might be able to defer withdrawals from those tax-deferred investments you started in your 30's such as IRA's and 401(k)'s, and let these continue to compound tax-deferred interest for a few extra years.

There is no one right answer for everyone. You have to decide what is best for you given your particular circumstances. If you have questions, call Social Security at 1-800-772-1213.

Benefit

Benefit

Lifetime Social Security Payment <u>Examples</u> Based on Starting Ages

Benefit

Benefit

Birth	Retirement Age	Starting at Age 62	Starting at Age 65	Starting at Age 66	Starting at Age 67	Starting at Age 70
1941	65 and 8 months	\$211,692	\$229,440	\$233,700	\$237,600	\$238,500
1942	65 and 10 months	\$209,208	\$226,560	\$230,736	\$235,008	\$236,340
1943 to 1954	66	\$207,000	\$223,920	\$228,000	\$233,280	\$237,600
1955	66 and 2 months	\$204,792	\$221,280	\$225,492	\$230,472	\$235,260
1956	66 and 4 months	\$202,308	\$218,640	\$222,984	\$227,448	\$232,740
1957	66 and 6 months	\$200,100	\$216,000	\$220,476	\$224,640	\$230,400
1958	66 and 8 months	\$197,892	\$213,360	\$217,968	\$221,832	\$228,060
1959	66 and 10 months	\$195,408	\$210,720	\$215,232	\$218,808	\$225,540
1960 and later	67	\$193,200	\$208,080	\$212,724	\$216,000	\$223,200

Source: Social Security Administration (Office of Chief Actuary)

PERSI Proposed legislation for 2001

PERSI will be submitting the following pieces of legislation for 2001:

Technical Corrections — This is a collection of four minor corrections to existing law to:

- a. Clarify when erroneous employee contributions may be refunded;
- b. Remove the statutory limit (less than \$20) for commutation of benefits, and replace it with Board authority to determine the limit by rule:
- c. Clarify the scope of In-Service Disability Retirement so that the "hired on or after July 1, 1993" limitation applies only to firefighters;
- d. Correct an erroneous statutory reference in Idaho Code 59-1396 from 72-1445 to 72-1444.

Waiver of Excess Cost for New Employers —

To give the Board the authority to waive excess cost payments when a new employer remains in PERSI for at least ten years.

Spousal Access to Information — To allow PERSI the authority to release certain member account information to a spouse or ex-spouse.



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PERSI receives prestigious accounting award for 8th consecutive year

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to PERSI for its comprehensive annual financial report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized

PERSI receives the GFOA award for the eighth consecutive year. Pictured (from left to right):
Retirement Board Chairman, Jody B. Olson;
Senior Accountant, Rhonda Yadon; PERSI Board
Member and Chairman of the Audit
Subcommittee, Susan K. Simmons.

comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The System has received a Certificate of Achievement for the last eight consecutive years.



PERSI Board approves maximum COLA for retirees for 11th straight year

PERSI will recommend a full discretionary Cost of Living Allowance (COLA) of 3.4% for all PERSI retirees. PERSI's investments earned 13.3% before expenses in FYOO, which means the fund may pay a full retiree COLA, grant gain sharing to retirees, active members and employers, and keep lower contribution rates for active members and employers.

With this year's full COLA, 100% of PERSI retirees continue to have 100% purchasing power. PERSI members are fortunate to receive cost of living increases. Most private pension plans do not grant COLAs at all, so that over the years, pensioners lose considerable

purchasing power due to inflation. This will be the 11^{th} straight year that PERSI has granted the maximum COLA.

The recommended 3.4% discretionary COLA equals the increase in the Consumer Price Index (CPI) for the year (August to August). By law, PERSI's COLA cannot exceed the CPI or 6%, whichever is less.

The COLA automatically becomes effective March 1, 2001 unless the legislature modifies the Board's recommendation by the 45 th day of the legislative session. The legislature has never modified the Board's recommendation.



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